

THE BEACON

Exclusive Compliance Alerts from MZQ Consulting

March 6, 2018

SURPRISE MID-YEAR DECREASE TO HSA LIMIT

In a major surprise to the employee benefits community, yesterday, March 5, 2018, the IRS issued an “inflation adjustment” that will throw the employee benefits community into disarray. Specifically, the IRS announced that the annual contribution limit for family coverage through a health savings account (HSA)—for the 2018 calendar year—will be reduced from \$6,900 to \$6,850. None of the other limits surrounding HSA plans were changed.

Typically, the IRS issues its annual inflation adjustments to the many limits relating to employee benefits around October for each following calendar year. The IRS followed that pattern for 2018. The Revenue Ruling issued yesterday breaks with this norm. As such, it seems possible that the IRS officials responsible for setting these limits did not understand the impact it would have on employer-sponsored HSA plans. At least in the short-term this leaves some room for hope that the IRS may “correct” the adjustment once they realize how disruptive such a mid-year change would be for both employees and employers.

Immediate action in response to this change is not necessary—but timely action may be.

Ultimately, assuming the IRS does nothing to fix the issues related to this mid-year change, participant contributions to family HSA coverage will need to be reduced by \$50 for 2018. HSAs are individual tax preferred savings accounts. Because of this it is the legal responsibility of the employee, not the employer, to make sure the contribution limits are not exceeded. Of course, for employers that facilitate HSAs, they will need to help make sure their employees don’t face tax penalties for over-contributing.

The good news in this regard is that time is on our side. Penalties for contributing too much to an HSA are only assessed if contributions are maintained in that HSA past the reporting deadline for the applicable tax year. Said differently—the law will generally allow adjustments to be made to 2018 accounts up through April 15, 2019.

Taking all of this into account, it is reasonable, and likely prudent, for employers to monitor the trajectory of this announcement over the coming weeks to determine if further changes are made by the IRS to avoid the “scramble” that a mid-year change can produce. Assuming that adjustments do ultimately become necessary, the coming months can be used to develop a strategy—from both an employee communications and benefits administration perspective—for making the needed adjustments.

MZQ Consulting, LLC is not a law firm and cannot dispense legal advice. Anything contained in this communication is not and should not be construed as legal advice. If you need legal advice, please contact your legal counsel.

www.mzqconsulting.com
443.948.6800

